

Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

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O 161830Z MAR 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 4234

S E C R E T KINGSTON 0940

EXDIS

E.O. 1652: GDS

TAGS: EMIN JM

SUBJ: BAUXITE NEGOTIATIONS BEGIN WITH A BANG

REF: KINGSTON 939

1. SUMMARY: CHIEF EXECUTIVE OFFICERS OF BAUXITE COMPANIES WERE GRATIFIED BY TONE AND CONTENT OF THEIR MEETING WITH PM, BUT STUNNED AND SHOCKED BY CONTENTS OF APER THEY WERE HANDED AFTERWARDS.

2. CHIEF EXECUTIVE OFFICERS (CEOS) OF THE SIX BAUXITE COMPANIES OPERATING IN JAMAICA MET FOR APPROXIMATELY AN HOUR AND A HALF WITH PM MANLEY ON FRIDAY AFTERNOON, MAR 15. CEOS WERE NOT ACCOMPANIED BY COUNSEL OR OTHER STAFF, AND PM ATTENDED MEETING AS ONE. THIS ACCOUNT OF MEETING OBTAINED PRIMARILY FROM CORNELL MEYER OF KAISER, BUT SUBSTANTIATED BY RICHARD REYNOLDS.

3. PM WAS MODERATE IN TONE AND RELAXED AND FRIENDLY IN MANNER THROUGHOUT THE MEETING. HOWEVER IT WAS CLEARLY A PRESENTATION RATHER THAN AN EXCHANGE OF VIEWS, AND HE DISCOURAGED STATEMENTS AND QUESTIONS FROM THE INDUSTRY BY HIS APPROACH AND HANDLING OF THE MEETING. PM BEGAN WITH A STATEMENT OF JAMAICA'S SERIOUS ECONOMIC STRAITS AS RESULT OF THE ENERGY CRISIS AND THE NECESSITY OF OBTAINING MORE FROM ALL EXPORTS, INCLUDING BAUXITE. HOWEVER,

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HE ADMITTED THAT COUNTRY HAD SERIOUS ECONOMIC PROBLEMS EVEN

BEFORE THE ENERGY CRISIS AND WOULD HAVE SOUGHT A RE-NEGOTIATION WITH THE INDUSTRY IN ANY EVENT. MOREOVER, HE SAID, RE-CASTING THE ARRANGEMENTS WITH THE INDUSTRY HAD BEEN AN ANNOUNCED POLICY OF HIS PARTY SINCE 1970, AND OF HIS GOVERNMENT SINCE IT ASSUMED POWER IN 1972. HOWEVER HE SAID THAT HE WISHED TO ASSURE THE COMPANIES, AS HE HAD ASSURED PM TRUDEAU AND SECRETARY, THAT NEGOTIATIONS WOULD TAKE PLACE WITHIN LIMITS OF INTERNATIONAL LAW AND PRACTICE, AND THAT HIS GOVERNMENT DID NOT INTEND NATIONALIZATION OR ANYTHING LIKE IT.

4. PM THEN SAID GOJ HAD TWO KINDS OF PROBLEMS, POLITICAL AND ECONOMIC. IN THE ECONOMIC AREA SAID THE GOVERNMENT FELT THREE REQUIREMENTS: (A) A GREATLY IMPROVED REVENUE FROM THE INDUSTRY; (B) AN IMPROVED BALANCE OF PAYMENTS SITUATION AS A RESULT OF MAKING FULLER UTILIZATION OF THE JAMAICAN BANKING SYSTEM BY THE INDUSTRY; AND (C) BETTER AND MORE RAPID EXPLOITATION OF RESERVES AND INCREASED REFINING CAPACITY IN JAMAICA.

5. ON THE POLITICAL SIDE PM SAID A NATION LIKE JAMAICA HAD ESSENTIALLY FOUR CHOICES IN DEALING WITH FOREIGN INVESTORS. FIRST CHOICE WAS SIMPLY GRATITUDE. THIS WAS A THING OF THE DISTANT PAST IF IT HAD EVER BEEN APPROPRIATE. SECOND CHOICE WAS DEALING WITH INVESTOR ON A STRICTLY FINANCIAL, CASH AND CARRY BASIS. PM SAID THIS CHOICE MADE BY HIS FATHER, NORMAN MANLEY, IN MAKING THE EARLIER ARRANGEMENTS WITH THE INDUSTRY AND IT WAS QUITE APPROPRIATE TO THE TIME AND PLACE, BUT TIMES HAD CHANGED. THIRD CHOICE WAS NATIONALIZATION. EXPERIENCE OF GUYANA, CHILE, ETC. HAD CLEARLY DEMONSTRATED THE UNSOUNDNESS OF THAT COURSE. FOURTH CHOICE WAS PARTNERSHIP.

6. PM THEN EMBARKED ON PHILOSOPHICAL DISCUSSION SAYING IT WAS UP TO NEGOTIATORS ON BOTH SIDES TO BLAZE NEW TRAILS AND COME UP WITH NEW AND CREATIVE SOLUTIONS IN ORDER TO CREATE A REAL, WORKING PARTNERSHIP WITH JAMAICA. HE SAID THAT, WHILE HIS GOVERNMENT MIGHT INITIALLY BE A PARTICIPANT, HIS ULTIMATE OBJECTIVE WAS 51 PERCENT OWNERSHIP BY THE JAMAICAN PEOPLES AS PRIVATE CITIZENS OR ENTITIES, AND THAT THE JAMAICAN GOVERNMENT WOULD GET OUT OF THE BUSINESS AS A PARTICIPANT.

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7. AFTER MAKING HIS PRESENTATION PM ANNOUNCED JAMAICAN NEGOTIATING TEAM (NO CHANGE FROM OUR EARLIER INFORMATION) AND SAID THAT HENCEFORTH HE WOULD NOT PARTICIPATE DIRECTLY IN THE NEGOTIATION IN ANY WAY, AND THAT HE EXPECTED THAT, AFTER NAMING THEIR NEGOTIATORS, THE CEOS WOULD DO LIKEWISE. HE THEN STOOD UP AND BY WAY OF CLOSING THE MEETING, SAID THAT IT WAS HIS INTENTION THAT THE NEGOTIATIONS SHOULD BE CONDUCTED IN COMPLETE SECRECY UNTIL ALL MAJOR ISSUES HAD BEEN RESOLVED.

8. AT THIS POINT NATHANIEL DAVIS (ALCAN) BROKE IN AND SAID THAT, WHILE HE AGREED ON PRINCIPLE THAT NEGOTIATIONS SHOULD BE CONDUCTED IN SECRET, HE HAD A SERIOUS PROBLEM AND HENCE MUST RESERVE HIS POSITION UNTIL HE HAD HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL. HE EXPLAINED THAT HIS PROBLEM WAS A GENERAL SHAREHOLDERS MEETING SCHEDULED FOR THE NEAR FUTURE AND THE POSSIBILITY THAT COUNSEL MIGHT FEEL HE WOULD BE ACTING ILLEGALLY BY CONCEALING THE NATURE OF NEGOTIATIONS AND GOJ PROPOSALS FROM HIS SHAREHOLDERS. JOHN HARPER (ALCOA) THEN SAID HE HAD RESERVE HIS POSITION FOR SIMILAR REASONS. PM WAS TAKEN ABACK BY THIS DISCLOSURE AND SAT DOWN SUDDENLY ("AS IF STRUCK BY A BLOW" ACCORDING TO MEYER). SOME GENERAL DISCUSSION FOLLOWED DURING WHICH CEOS REITERATED THAT THEY AGREED FULLY WITH PM IN PRINCIPLE, BUT THAT SOME OF THEM HAD LEGAL PROBLEMS. THEY HAD THE FEELING THAT PM DID NOT FULLY UNDERSTAND THE NATURE OF THEIR PROBLEMS BUT ACCEPTED THE FACT THAT THEY HAD THEM. IT WAS FINALLY AGREED THAT EITHER THE INDUSTRY NOR THE GOVERNMENT WOULD MAKE ANY DISCLOSURES WITHOUT CONSULTING IN ADVANCE AND IN DETAIL WITH THE OTHER. MEETING THEN BROKE UP.

9. CEO'S LEFT MEETING WITH FEELING THEY WERE DEALING WITH A REASONABLE MAN AND THAT PROSPECTS FOR FORTHCOMING NEGOTIATIONS WERE NOT TOO BAD AFTER ALL. HENCE THEY WERE STUNNED BY TEXTS OF GOVERNMENT PROPOSALS (REFTEL) WHICH HAD BEEN DELIVERED TO THEIR KINGSTON OFFICES OR HOTELS WHILE THEY WERE MEETING WITH PM. COMPANIES CHIEFLY CONCERNED BY REVENUE PROPOSALS WHICH, IF CARRIED OUT, WOULD LEAD TO REVENUES OF APPROXIMATELY \$350 MILLION TO THE GOVERNMENT. THIS WOULD BE ABOUT TEN TIMES CURRENT CONTRIBUTIONS, AND ACCORDING TO SOME, WOULD EXCEED PROFITS ENJOYED BY ENTIRE ALUMINA INDUSTRY LAST YEAR. COMPANIES ALSO SHOCKED BY TREATMENT OF RESERVES QUESTIONS, WHICH THEY WOULD REGARD AS EXPROPRIATION AND POSSIBLE GROUNDS OF AN OPIC CLAIM. THEY WERE ALMOST EQUALLY

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DISTURBED BY PREEMPTORY AND PUNITIVE TONE OF LANGUAGE WHICH MAKES GOVERNMENT OBJECTIVES SOUND MORE LIKE NON-NEGOTIABLE DEMANDS RATHER THAN OPENING PROPOSALS.

10. CEO'S MET TOGETHER WITH COUNSELS (BOTH AMERICAN AND
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BAUXITE, INDUSTRY, AGREEMENT DRAFT, INDUSTRIAL CONTROLS, GOVERNMENT REVENUES, NEGOTIATIONS, MEETINGS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 MAR 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974KINGST00940
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: GS
Errors: N/A
Film Number: P740141-0925
From: KINGSTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740337/aaaabise.tel
Line Count: 154
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: 74 KINGSTON 939, KINGSTON 939
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 17 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 SEP 2002 by kellew0>; APPROVED <03 JAN 2003 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BAUXITE NEGOTIATIONS BEING WITH A BANG
TAGS: EMIN, JM
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005